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SIPDIS

EEB FOR DAS HENGEL; EUR FOR DAS BRYZA; DOS FOR SPECIAL
ENVOY FOR EURASIAN ENERGY RICHARD MORNINGSTAR; NRC FOR
STEPHEN DEMBECK, OFFICE OF INTERNATIONAL PROGRAMS

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SUBJECT: DAS HENGEL DEMARCHES THE GOI AND ENI ON IRAN AND
ENERGY SECURITY

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ROME 00000431 001.2 OF 004

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¶1. (C) Summary: During separate April 3 meetings with the Italian MFA and Italian energy parastatal ENI, EEB/ESC DAS Hengel requested appropriate action be taken to halt new petrochemical deals with Iran (Ref A). ENI executives said Iran needs advanced oil recovery technology to become a net gas exporter. Asked about a possible signing of a South Stream accord during the up-coming Sofia Energy Summit, the MFA and ENI said they were not aware of an agreement in the works. ENI said it is close to concluding negotiations for an oil contract in Iraq, with production to start in twelve months. Separately, the Ministry of Economic Development told DAS Hengel that Italian excessive reliance on imported gas for electricity production and a lack of internal gas market competition are problems that the Ministry is trying to address by diversifying the supply and routes of gas, as well as by bringing back nuclear power. DAS Hengel asked for a level playing field for U.S. technology companies interested in accessing a future Italian nuclear energy market. End summary.

IRAN - JUST STOP IT, NO NEW COMMERCIAL DEALS

¶2. (C) On an April 3 meeting with MFA Economic Cooperation Bureau Director General Magliano, DAS Hengel raised ref A points. Referencing the Iran petrochemicals deal involving Italian companies, DAS Hengel asked the GOI to discourage these Italian companies and others from doing any deals with Iran. He explained that the international community must maintain pressure on Iran until it complies with the UNSC resolutions and cooperates fully with the IAEA. Magliano responded that the GOI has a rigorous export control system that prevents the export of dual-use equipment to Iran, while allowing legitimate trade. DAS Hengel reiterated that it is not so much an issue of export controls, but of discouraging deals with Iran that will be interpreted by that regime as rewards at a time when the international community should maintain pressure. DAS Hengel also reminded Magliano of the USG's continued opposition to contracts that develop the

Iranian oil and gas sectors, and of USG obligations to apply the U.S. Iran sanctions law.

13. (C) DAS Hengel raised the same points during a separate meeting with Vincenzo de Luca, head of ENI's International Public Affairs, and other senior company officials. De Luca said that ENI is fully compliant with the sanctions regime, that it informed the USG of its Iran operations last year during CEO's Scaroni's visit to Washington (which included a meeting with Treasury U/S Levey), and that nothing has changed since then - ENI will not undertake new activities in Iran's hydrocarbons sector. De Luca downplayed the participation by ENI's subsidiary Polimer Europa in the Iran petrochemicals deal, claiming that it has only received a 4 million USD contract out of the multimillion dollar project, and that it involves mature technology that other countries such as China could provide. De Luca highlighted China's interest in supplying Iran with technology and displacing Western companies. DAS Hengel replied that the USG prefers the agreement not go through because it would send Iran the wrong signal at a time when we are trying to maintain economic pressure on the regime. DAS Hengel told De Luca that the USG is also pressing China for similar cooperation on Iran.

14. (C) ENI's Senior VP for Strategies and Development, Leonardo Maugeri, explained that what Iran really needs is advanced oil recovery technology so as not to use so much of its own gas for reinjection in oil recovery operations. Maugeri said that with currently employed technology, Iran uses about 40 billion cubic meters of gas per year to inject into mature oil fields, but that it does not recover more than 20 percent of oil from such fields. He added that without access to new, advanced recovery technology, Iran

ROME 00000431 002.2 OF 004

will likely be forced to use more of its own natural gas resources to recover more oil. He said that this will keep it from becoming a net gas exporter. Maugeri added that emblematic of Iran's need for its own gas for oil recovery efforts is the fact that it imports gas from Turkmenistan only to then re-export it to Turkey. DAS Hengel replied that the P 5 have offered Iran cooperation on energy, but only if it complies with its UN nonproliferation obligations.

JOINING IRENA TO SHAPE THE AGENDA

15. (C) The MFA's DG Magliano explained to DAS Hengel that Italy decided to join IRENA in order to better shape its agenda from the inside. Magliano said that one of the GOI's concerns is that IRENA may develop a too ideological approach to renewable energy and emphasize only solar and wind power over other available renewable energy options. He said the GOI would like to see IRENA develop into an effective agency, and for this reason Italy put as a condition for its entrance that IRENA cooperate with the IEA. Magliano added that U.S. and Japanese membership in IRENA would be a plus, otherwise the organization would be unbalanced. DAS Hengel told him the USG had still not made a decision on joining.

SOUTH STREAM

16. (C) DAS Hengel inquired in his separate meetings with DG Magliano and ENI on whether there would be any signing of a South Stream accord during the April 24-25 Sofia Energy Summit. Both stated they were not aware of any such accord. ENI's De Luca said that there were no new developments with regards to its participation on South Stream, but that the company is continuing to work on implementation of its Strategic Agreement with Gazprom. De Luca explained that ENI's goal is access to the Russian upstream sector and it is trying to leverage agreement on South Stream towards this, something the Germans are also seeking to do with Nord Stream. De Luca did not comment when asked if Gazprom had

found new gas for South Stream, but added that South Stream and Nabucco are not mutually exclusive projects. Magliano said that the GOI does not like summits that choose one gas pipeline over another, adding that such summits should focus on laying the groundwork for inter-governmental agreements that would allow private sector companies to realize energy projects on their own. He also stated that to meet growing gas demand, Italy and Europe need all proposed gas pipelines.

DAS Hengel reiterated the importance of Southern Corridor Caspian gas to European energy security, and that obtaining Turkey's cooperation in allowing gas through to Europe was a critical step that the USG is working on. Magliano responded that if Caspian gas does not become available, the solution becomes Iranian gas. DAS Hengel emphasized earlier points on why Iranian energy supplies should be off the table.

ENI BIDS ON IRAQI OIL FIELDS

17. (C) De Luca said that ENI is currently negotiating an oil production contract for the Nassariyah field in Iraq, and that the company is confident it will reach an agreement soon. If so, De Luca stated that ENI would be ready to start production in twelve months. De Luca also said that ENI would take part in the next Iraqi oil bid round.

STATE OF NUCLEAR ENERGY PLANS

18. (C) DAS Hengel also met the Energy Department Director General Guido Bortoni of the Ministry of Economic Development to discuss Italian energy security and the GOI's plans to return to nuclear power. Bortoni said that one of his Ministry's main concerns is Italy's reliance on gas for 70 percent of its electricity generation, and of its over-dependence on imported gas to meet 90 percent of its total gas needs (about 84 bcm/yr). Bortoni added that insufficient internal gas market competition is also a

ROME 00000431 003.2 OF 004

problem that contributes to high gas prices in Italy. To address this, Bortoni said his Ministry is working towards diversifying the sources and routes from which Italy obtains its gas supplies, and on bringing back nuclear energy power. Bortoni agreed with Hengel's point that LNG could be one solution, but he noted that delays in the approval process and NIMBYism remain real impediments for construction of LNG regasification terminals (Note: Italy has one operational LNG regasification terminal with capacity of 3.5 bcm/yr owned by ENI. Another one of 8 bcm/yr maximum capacity and owned by Exxon, Edison and Qatar Petroleum is scheduled to come on line in early Summer. End note). Bortoni added that until Italy builds nuclear power plants, it will remain over-dependent on gas imports. DAS Hengel expressed concern that the recent Italo-French nuclear agreements (ref B) seem to offer the French exclusive access to the future Italian nuclear energy market, and told Bortoni that U.S. firms are also very interested in participating. He also asked that the GOI maintain a level playing field for U.S. companies to allow them to bid for technology and service contracts. Bortoni replied that the agreements with the French do not exclude U.S. companies or others from entering the Italian market, noting that it would be preferable for Italy not to be tied to just one technology. He added that there are other electricity companies interested in building the remaining 4 to 6 nuclear plants of the total envisioned in the national energy plan (Note: parastatal ENEL's agreement with EdF signed last February calls for the building of 4 Areva plants. End note).

19. (C) Comment: Post will continue to monitor Italian-side South Stream developments, in particular leading up to the Sofia Energy Summit. ENI's CEO Scaroni was in Moscow on April 7 as part of a large Italian business delegation and met with Gazprom's CEO Miller. The press reports that the focus of Scaroni's visit was to conclude the deal for Gazprom's buy

back of ENI's 20 percent share in Gazpromneft, and that scheduled discussions on South Stream were postponed for the next meeting between Putin and Berlusconi (Berlusconi cancelled his trip to Moscow to tend to the earthquake emergency in the Italian Abruzzo region). In addition, De Luca's downplaying of progress on South Stream does not track with at least one development that we heard of that would seem to be significant: during their January 27 farewell meeting, Scaroni told Ambassador Spogli that ENI had negotiated a South Stream gas deal in which Gazprom would give ENI a 50 percent share of "new" future South Stream gas. Scaroni mentioned 5 to 10 bcm/yr, but it was not clear if this is what ENI's share would be, or if this gas is the total referred as "new" SS gas. Scaroni did not say if a contract had been signed to seal such deal, and De Luca was not forthcoming during Post's subsequent inquiries. ENI had previously told us that the only concrete participation in SS was their agreement with Gazprom to do the feasibility study, but that they wanted SS gas to distribute in Eastern Europe (Ref E).

¶10. (C) Comment continued: We're glad that the Ministry of Economic Development has identified Italian over-dependence on imported gas as a problem area for its energy security that it needs to address. However, in light of the Berlusconi - Putin "special relationship" and with GOI parastatal ENI collaborating with Gazprom on various projects that do not diversify from Russian gas imports, there is clearly reason for scepticism. Its talk of diversifying the routes and sources of gas supply is also a step in the right direction that we have been encouraging in our engagement, but again, we are sceptical. This same Ministry has repeatedly caved in to ENI's pressure and rebuffed European Commission efforts to increase competition in the internal Italian energy market. When the EU calls for unbundling here, ENI and the GOI say no. The Ministry could also do more to overcome bureaucratic obstacles that prevent construction of additional LNG regasification plants. Nuclear energy is another option, but the GOI still has a monumental task ahead to put all the regulatory and institutional pieces in place to bring back nuclear power. Bortoni expressed interest in sending his Ministry's officials to the U.S. Nuclear Regulatory

ROME 00000431 004.2 OF 004

Commission to learn more about our nuclear energy regulation. We will continue to assist Italy in developing a sound and effective regulatory system that is not biased against U.S. nuclear technology. Post will also continue to advocate for a level playing field for U.S. companies. End comment.
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